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SUBJECT: OFFICIALS SAY YANGTZE RIVER DELTA PLAYS "VITAL ROLE" IN
ECONOMIC TRANSFORMATION, BUT POOR GOVERNANCE HINDERS COOPERATION
BETWEEN CITIES

REF: A. (A) 09 SHANGHAI 492
[1](#)B. (B) 09 SHANGHAI 190

(U) Sensitive but unclassified. Not for dissemination outside
USG channels; not for Internet distribution.

Summary

[1](#)1. (SBU) Participants in a conference organized by the Communist Party's Organization Department and the National Development and Reform Commission on economic and social development in the Yangtze River Delta (YRD) region observed that the administrative division of the region among Shanghai and its adjoining provinces, combined with the political imperative for officials to show ever increasing levels of economic output and fiscal revenue, undermines efforts toward market-based regional integration. They also highlighted the importance of attracting new "talent" to the region through improvements in the YRD's economic and social infrastructure. Several conference participants said they hope the Shanghai 2010 World Expo will help advance YRD integration. Although the candor in pointing out the political obstacles to greater economic integration in the YRD impressed us, the conference's clear focus on raising the region's international competitiveness signaled ongoing adherence to an export-oriented economic strategy among the conference participants despite Central and local government pronouncements about economic transformation to reorient the Chinese economy toward domestic demand. End Summary.

The YRD's "Vital Role" in China's Transformation

[1](#)2. (SBU) The National Development and Reform Commission (NDRC)

and the China Executive Leadership Academy Pudong (CELAP) -- the Shanghai-based training institute under the Communist Party's Central Organization Department -- co-hosted a January 16 conference on "The Future of the YRD Region: Opportunities and Challenges" at CELAP's new branch campus in city of Kunshan, located in Jiangsu Province just outside Shanghai. In addition to government and Party officials from around the region, members of Shanghai's consular foreign business community were invited to attend the conference.

13. (SBU) In her keynote remarks, Shanghai Communist Party Municipal Committee Vice Secretary Yin Yicui characterized the YRD as China's "economic engine," adding that YRD integration is an "important priority for the Central Government." Improving the region's international competitiveness in order to contribute to China overcoming the global financial crisis and simultaneously transforming the country's economic growth model is a "daunting task," Yin said. (Note: Yin ranks third in Shanghai's political hierarchy after Party Secretary Yu Zhengsheng and Mayor Han Zheng. She is the only woman among the municipality's top leaders and oversees propaganda and united front work. End note.) NDRC Economy Department Director General Fan Hengshan said in his remarks that from the Central Government's perspective, the YRD plays a "vital role" in China's economic growth and transforming the "growth model" is a "historic mission" (Ref A). Fan said the YRD contributed to 23 percent of China's GDP and 36.7 percent of total trade volume in 2009. He rehashed the laundry list of 11th Five Year Plan (2006-2010) goals on narrowing the rural-urban gap, achieving regional balances, protecting the environment, and supporting innovation, stating that the YRD's growth contributes to each of

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these objectives.

"Talent" Wanted (Foreigners [Basically] Welcome)

14. (SBU) Shanghai needs to develop an economic and social environment more attractive to "talent" (rencai) -- in effect, individuals with professional or technical credentials -- in order to maintain its competitive edge, stated Shanghai CPC Municipal Propaganda Department Deputy Director General Zong Ming. Elaborating on this theme, Shanghai Academy of Social Sciences Human Resource Research Center Director Wang Zhen described Pudong's efforts to become a "special zone" for the attraction of foreign talent and stressed the ongoing lack of adequate incentives and "national treatment" for expatriates, such as a permanent residency system like the U.S. "green card"; guarantees of fair tax treatment, foreign currency conversion, and health insurance coverage; world-class academic and research "platforms"; and suitable social infrastructure (schools, hospitals, housing, cultural facilities and events, and natural environment). Nicholas Morris of Australian firm IPA Economics reviewed Dubai's experience in attracting foreign talent -- notably the absence of income tax and the development of expatriate-friendly infrastructure -- had contributed to the principality's growth and stressed the risks of basing an economic strategy almost totally on external demand. Discussants highlighted the importance of having a strategic approach to human resource attraction and development and of creating a suitable environment, including "appropriate" mobility for professionals.

15. (SBU) Zhejiang Provincial Organization Department Deputy Director Yao Zhiwen acknowledged Zhejiang lags Shanghai and Jiangsu in efforts to attract professional and skilled workers

and indicated Zhejiang is looking to propose a cooperative agreement with its neighbors on human resource development. Zhejiang Provincial Communist Party Secretary Zhao Hongzhu has made developing human resources a priority, Yao noted. In particular, Zhejiang has stressed improving talent employed by private enterprises.

16. (SBU) Observers also commented on the contributions of rural-to-urban migrants in the YRD. East China Normal University Professor Gao Xiangdong presented data that showed migrants in the Yangtze River Delta are clustered in a Z-shaped area bounded by the major municipalities of Nanjing, Shanghai, Hangzhou, and Ningbo, with most living in the suburban areas of these metropolises. He believed the migrant population would likely increase significantly in the next 5-10 years. Professor Yin Qanjian of Shanghai University of Finance and Economics analyzed the age structure of inhabitants in the Yangtze River Delta and noted the much higher social security burden on Shanghai than on the other jurisdictions in the region. East China Normal University's Zhang added, however, despite Shanghai's rapidly aging population, the real social security problem was in the rural areas where no institutions exist to care for the elderly. Discussants agreed migration to the region has benefitted the local economy but debated the extent to which administrative controls over migration needed to be maintained in order to avoid excessive strain on public resources and services.

Political System Stymies Regional Cooperation

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17. (SBU) However, several commentators pointed out that institutional deficiencies in the Communist Party's cadre evaluation system and competition among localities hampers the YRD's growth. Jiangsu Academy of Social Sciences Vice President Zhang Haohan pointedly argued the current administrative division of the region among Shanghai, Zhejiang, and Jiangsu combined with the present benchmarks by which leading officials are evaluated -- notably GDP and fiscal revenue growth within their own jurisdictions -- discourages cooperation among the different jurisdictions that make up the YRD. The most significant challenge, Zhang said, is to synthesize the various local political objectives into a market-based regional economic strategy. The cadre performance evaluation system should be adjusted to encourage cooperation rather than competition and a mechanism should be implemented so that YRD localities could share the benefits of regional development, he recommended. Shanghai Academy of Social Sciences Urbanization Development Center Director Yu Hongsheng concurred with Zhang, stating that the 16 cities of the YRD need to improve their institutional cooperation. Yu cited environmental protection as a policy area that demands region-wide efforts.

18. (SBU) Agreeing with the observations by Zhang and Yu, East China Normal University professor Shen Yufang advocated regional planning to complement existing municipal development plans. The lack of coordination is particularly acute with regard to transportation networks and land use planning. CELAP Foreign Affairs Director Jiang Haishan wryly noted in one session that "Every city in the YRD is building big ring roads, but they are never connected." Fudan University Yangtze River Delta Research Institute Vice Director Zhang Huiming pointed out that the desire on the part of the authorities in Shanghai's Pudong New District to continue to expand industrial capacity, even as Shanghai moves further toward becoming a service-based economy,

led to the recent municipal government decision to merge adjoining Nanhui District with Pudong.

Shanghai World Expo a Mechanism for YRD Cooperation

¶9. (SBU) Several conference participants said they hope the Shanghai 2010 World Expo will help advance YRD integration. Shanghai Communist Party Vice Secretary Yin Yicui expressed the hope the Shanghai 2010 World Expo will be a positive example of closer cooperation within the region (Ref B). Xinhua News Agency's Jiangsu Branch Head Tian Shubin called 2010 the "Year of YRD Integration" because of the Expo. Shanghai University of Finance and Economics professor Zhang Xueliang said the 2010 World Expo will play an important role improving services and infrastructure in the YRD. Shanghai also needs support from other YRD cities, Zhang noted, later adding to PolOff that "Shanghai can't pull off the Expo on its own -- it needs help from the region." The World Expo hopefully will help local governments overcome their inward focus, Zhang stated.

Comment

¶10. (SBU) We heard good news and bad news at the Kunshan conference. First, the candid acknowledgement by several conference participants from government and Communist Party

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institutions -- with a substantial number of foreign observers in the room -- that elements of China's political system are inhibiting regional economic growth was a refreshing bit of openness about a sensitive issue. The bad news, however, was that discussion of optimal economic strategy for the YRD centered on making the region more internationally competitive with little attention to ways in which local firms could better tap China's domestic market and rely less on external demand. Despite all the calls from central and local leaders for economic transformation aimed at tapping domestic demand, the officials and scholars we encountered seemed uninterested in how to serve better Chinese consumers and very interested in making new inroads into markets abroad.

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